

21 Sept 88

MEMORANDUM FOR THE RECORD

FROM:

[redacted]
Chief, Flexible Benefits Branch

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SUBJECT: Meeting with Department of Labor Re: Flexible Benefits Plan

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1. On Monday, 19 December 1988 a meeting was held with the Department of Labor (DOL) in their downtown headquarters to discuss Flexible Benefits Programs. Attending the meeting were Larry Goodwin, Director of Personnel, Cecilia Banks, Deputy Director Personnel, Tony Spehar, Chief of Benefits, and Mike Griffen, Comptroller's Office from DOL, Tom Leuter, GAO and [redacted] and I, CIA.

2. The meeting was precipitated by some information I had received several days ago that DOL was seeking, from OPM, approval to launch a demonstration flex program. The purpose of the meeting was to exchange information on proposed programs and to obtain any possible views from GAO regarding these efforts.

3. Basically the DOL flex program proposal consists of allowing employees to begin health premium deductions on a pre-tax basis and to elect to participate in two flexible spending accounts - one for unreimbursed medical expenses and the other for dependent care. Both of these accounts would have a limit of \$5000. The Agency proposal, which is more conservative, has a \$5000 maximum on dependent care expenses but limits unreimbursed medical expenses to \$2500. We choose the lower amount because of a concern about meeting Section 89 guidelines involving discriminatory benefits for higher paid personnel. DOL thinks that it can argue that they are exempt from this provision since they engage in collective bargaining with their workforce. (A possible loophole according to [redacted])

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4. Since DOL is a Title V Agency, their proposal is based on their staying in the Federal Employees Health Benefits Program (FEHBP), unlike the Agency proposal which is based on withdrawal and establishing a customized menu of benefits. Their intention is to set up a control group of 500 employees outside the program and a testbed of 500 who would be in the program and to compare the results and relative benefits.

5. At this point DOL has submitted their proposal to OPM and are awaiting approval. The attached copy of an internal OPM memorandum contains some interesting data. First it is interesting that the Director, QPM suggested to DOL that they might want to include in their proposal some additional benefits not included in FEHB (single premium life insurance and short term disability). Secondly, it surfaces two all important questions, i.e.:

- a. Can a flexible spending account be established allowing pre-tax treatment of employee health premiums and unreimbursed medical expenses.
- b. Can annuity computations and allowances continue to be based on gross pay before salary reduction.

While we already have affirmative answers to these questions from OCG, (who has coordinated them with IRS), this memo nicely gets the issues in the open for the Title V Agencies. If OPM agrees with our opinions, and it is difficult to see how they could not, we will be in an even stronger position to defend the program to NAPA and the oversight committees.

6. Near the close of the meeting I told Mr. Goodwin that his predecessor, Frank Yeager, was one of our senior NAPA project leaders. He indicated that he had lunch with Mr. Yeager every couple of weeks and would mention his program and our meeting at their next lunch. I offered to send him any unclassified material we had discussed which would help them in their effort.

7. Following our meeting Mr. Spehar called and asked whether they could know more about our program. I invited him to review our new unclassified vu-graphs on Tuesday, 27 September.



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